

Message Text

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ORIGIN EB-08

INFO OCT-01 AF-10 EUR-12 NEA-10 ISO-00 INR-10 SIG-03
AID-05 CIAE-00 COME-00 FRB-03 NSAE-00 ICA-11
TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01
AGRE-00 STR-07 DODE-00 PM-05 H-01 L-03 NSC-05
PA-01 SS-15 /123 R

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R 230200Z APR 78
FM SECSTATE WASHDC
TO AMEMBASSY MADRID
INFO AMEMBASSY RABAT
AMEMBASSY ALGIERS
AMEMBASSY NOUAKCHOTT
AMEMBASSY TUNIS
AMEMBASSY LOME
AMEMBASSY DAKAR
AMEMBASSY AMMAN
AMEMBASSY PARIS
AMEMBASSY MOSCOW POUCH

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E.O. 11652: N/A

TAGS: PEPR, UR, MO, SP

SUBJECT: MESKALA PHOSPHATE AGREEMENT: SOVIET AND MOROCCAN
MOTIVATIONS

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REF: MADRID 3368 NOTAL

1. OUR ASSESSMENT IS THAT INCENTIVES FOR BOTH SOVIETS AND
MOROCCANS TO REACH MESKALA ACCORD WERE PRINCIPALLY
ECONOMIC. FOR THE SOVIET UNION, THE DEAL OFFERS: 1) AN
ASSURED LONG-TERM SOURCE OF A KEY INPUT FOR EXPANSION OF
SOVIET AGRICULTURAL PRODUCTION; AND 2) AN OPPORTUNITY TO

DEVELOP SOURCE WITHOUT EXPENDING SCARCE HARD CURRENCIES. FOR MOROCCO, THE AGREEMENT EXTENDS FINANCIAL ASSISTANCE FOR DEVELOPMENT PROJECT TO WHICH THE GOM HAS LONG BEEN PLEDGED; PROVIDES OPPORTUNITY TO SELL OFF SOME OF THE EXCESS STOCKS THAT OCP HAS BUILT UP; AND GUARANTEES A SHARE FOR MOROCCO IN THE GROWING AND POTENTIALLY LUCRATIVE SOVIET MARKET FOR PHOSPHATES.

2. POLITICAL FACTORS NO DOUBT PROVIDED SECONDARY IMPETUS. FOR THE MOROCCANS, INCREASING SOVIET RELIANCE ON IMPORTS OF PHOSPHATES WILL BE A RESTRAINING FACTOR ON SOVIET SUPPORT FOR OR IDENTIFICATION WITH ALGERIAN AIMS IN THE WESTERN SAHARA. THE SOVIETS MAY SEE THE AGREEMENT AS A

INVOLVEMENT IN AFRICAN REGIONAL ISSUES AND MORE GENERALLY TO EXPAND THEIR INFLUENCE IN MOROCCO.

3. SPANISH SOCIALISTS' CONCLUSION THAT AGREEMENT IS MEANS TO A POLITICAL END FOR THE SOVIETS WAS APPARENTLY BASED ON PREMISE THAT SOVIET PHOSPHATE RESERVES ARE "MORE THAN ADEQUATE." WE ARE NOT CERTAIN THAT THIS PREMISE IS CORRECT. ALTHOUGH THE USSR IS THE WORLD'S SECOND LARGEST PRODUCER OF PHOSPHATE ROCK (AFTER THE U.S.) AND HAS BEEN SELF-SUFFICIENT HERETOFORE, PRODUCTION HAS DECLINED SLIGHTLY IN THE LAST TWO YEARS--SUGGESTING THAT AT LEAST THE HIGHER GRADE DEPOSITS ARE BEGINNING TO BE DEPLETED. LIMITED OFFICIAL USE

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AT THE SAME TIME, EXPORTS HAVE BEEN SHARPLY CUT, VERY POSSIBLY TO ENSURE THAT DOMESTIC CONSUMPTION NOT BE CURTAILED. OFFICIAL DATA ARE NOT AVAILABLE, BUT THE FOLLOWING ESTIMATES HAVE BEEN PREPARED BY ISMA (THE NON-GOVERNMENTAL "INTERNATIONAL PHOSPHATE INDUSTRY ASSOCIATION"):

SOVIET UNION (MILLIONS OF METRIC TONS)

----- 1975 -- 1976 -- 1977

PRODUCTION -- 24.1 -- 23.4 -- 23.2

EXPORTS -- 5.8 -- 4.9 -- 3.3

4. DESPITE THESE SLOWDOWNS ON THE SOVIET SCENE, THE PRODUCTION/EXPORT PICTURE IN THE REMAINDER OF THE WORLD HAS BRIGHTENED CONSIDERABLY.

PRODUCTION (MILLION OF METRIC TONS)

U.S. -- 44.3 -- 44.7 -- 47.3

MOROCCO -- 13.5 -- 15.3 -- 17.0

WORLD TOTAL -- 107.4 -- 106.5 -- 111.4

EXPORTS (MILLION OF METRIC TONS)

U.S. -- 10.7 -- 9.1 -- 13.2

MOROCCO -- 13.1 -- 14.6 -- 15.8

WORLD -- 43.7 -- 41.3 -- 47.3

5. HARDEST HIT BY SOVIET EXPORT CUTBACKS HAVE BEEN ROMANIA AND POLAND. THESE TWO COMECON COUNTRIES HAVE BEEN FORCED TO TURN TO HARD-CURRENCY PRODUCERS OF PHOSPHATE ROCK, IN PARTICULAR THE U.S.

IMPORTS FROM USSR (THOUSANDS OF METRIC TONS)
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POLAND -- 815 -- 653 -- 48

ROMANIA -- 560 -- 440 -- 0

IMPORTS FROM U.S. (THOUSANDS OF METRIC TONS)

POLAND -- 400 -- 198 -- 912

ROMANIA -- 131 -- 248 -- 568

6. SOVIET INTEREST IN EXTERNAL SOURCES OF PHOSPHATES HAS NOT BEEN CONFINED TO MOROCCO. LAST YEAR A BARTER AGREEMENT WAS CONCLUDED WITH OCCIDENTAL PETROLEUM COMPANY, TO SUPPLY PHOSPHORIC ACID OVER A 30 YEAR PERIOD, IN EXCHANGE FOR AMMONIA, UREA AND POTASH. THIS AGREEMENT WILL ENTER INTO EFFECT WITH SMALL-SCALE SHIPMENT THIS YEAR.

7. HOW THE USSR WOULD HANDLE LARGE SHIPMENTS OF MOROCCAN ROCK (E.G., UP TO 10 MILLION TONS ANNUALLY WHEN MESKALA COMES ONSTREAM) IS SOMEWHAT ENIGMATIC AT THIS STAGE. SOVIET PHOSPHORIC ACID PLANTS DO NOT CURRENTLY HAVE EXCESS CAPACITY. FUTURE PLANTS NOW ON THE DRAWING BOARDS HAVE BEEN SPECIFICALLY DESIGNED (AND HENCE DEDICATED) TO ACCOMMODATE KOLA ROCK. THE ULTIMATE TEST OF SOVIET SERIOUSNESS IN GOING THROUGH WITH THE MESKALA AGREEMENT WILL BE CONSTRUCTION OF ADDITIONAL LARGE-SCALE PHOSPHORIC ACID FACILITIES, PRESUMABLY SOMEWHERE ALONG THE BLACK SEA. CHRISTOPHER

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